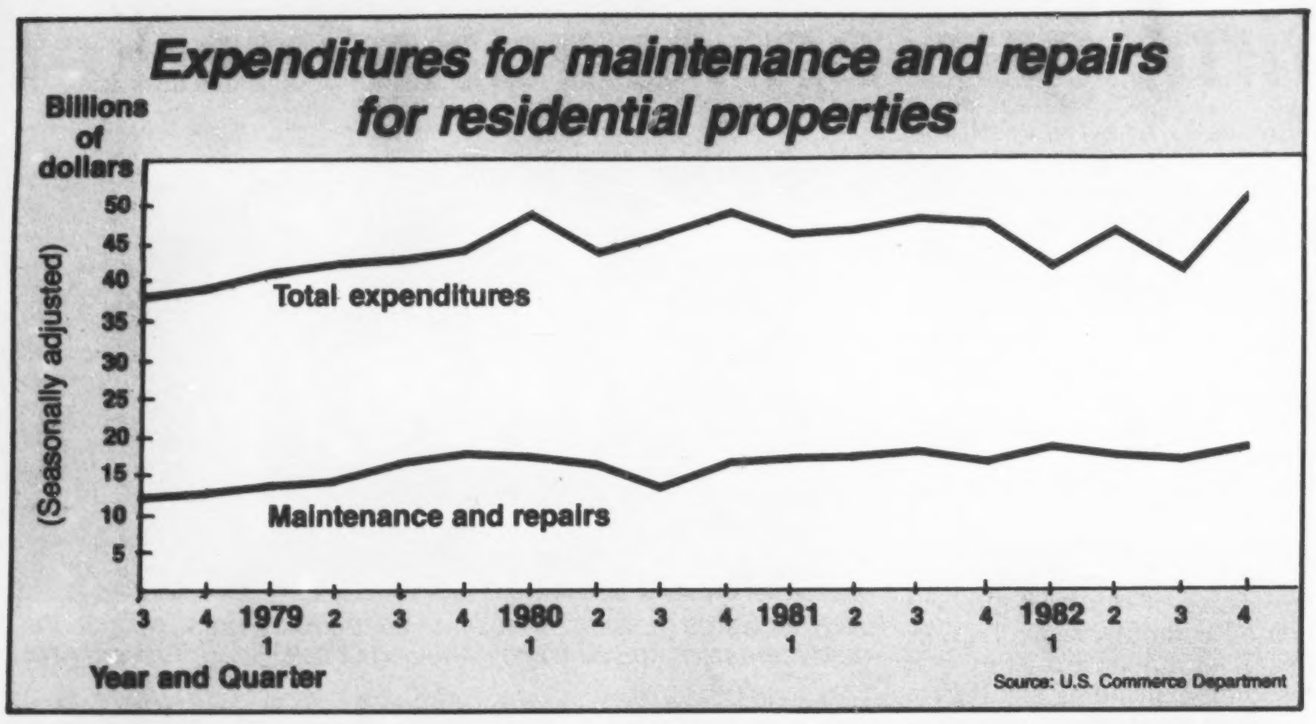

Upkeep spending climbs in 4th quarter

WASHINGTON—Overall expenditures for upkeep and improvement of residential properties were down 2% to $45.3 billion in 1982, but the fourth quarter showed a marked upturn with a 28% increase over the third quarter and a 13% improvement over the fourth quarter of 1981, according to Commerce Dept. figures released last month.

On a seasonally adjusted basis, fourth-quarter expenditures reached $51.9 billion. Actually expenditures for upkeep and improvement in the fourth quarter were $12.6 billion. Resident owners of properties with one to four units of housing spent 70% or $8.9 billion of that money.

Among owners of single family homes, painting projects accounted for far more upkeep dollars than the maintenance and repair of heating or air-conditioning, plumbing, roofing or siding. Owners of single-family homes spent $3.2 billion on painting in 1982.

In terms of improvement, single-family homeowners spent about twice as much on interior alterations compared to additions. A total of $8 billion was spent on interior alterations.

Roofing drew the most improvement dollars for replacement projects with $2.4 billion spent by owners of single-family homes in 1982.

Expenditures for additions and alterations, the largest category within the construction improvements breakdown, were $14.1 billion in the fourth quarter for all properties, compared to $9.9 billion in the third quarter and $13.5 billion in the fourth quarter of 1981. The figures are annualized and seasonally adjusted in 1977 dollars.

While the $16.8 billion spent on maintenance and repairs in 1982 was 5% above the $16 billion estimate for 1981, the increase was offset by a 6% decline in spending for construction improvements to $28.5 billion in 1982 from $30.3 billion in 1981.

Expenditures for upkeep and improvement of residential properties

(in millions of dollars)

Type of construction work	All residential properties 1981	1982
Total expenditures	46,351	45,291
UPKEEP		
Maintenance and repair	16,022	16,810
Heating and central air-conditioning	750	836
Plumbing	1,870	1,799
Roofing	1,574	1,324
Painting	5,576	5,734
Siding	620	665
Other	5,632	6,451
CONSTRUCTION IMPROVEMENT		
Additions, alterations and major replacements	30,329	28,481
Additions to residential structure	3,164	2,641
Additions and alterations on property outside residential structure	5,303	5,423
Alterations within residential structure	11,947	10,711
Heating and central air-conditioning	891	687
Plumbing	710	710
Remodeling	3,468	2,688
Other	6,877	6,625
Major replacements	9,915	9,707
Heating and central air-conditioning	2,028	1,707
Plumbing	1,838	1,748
Roofing	3,352	3,780
Siding	1,517	1,351
Other	1,181	1,119

Source: U.S. Commerce Department

While overall spending for upkeep and improvement of residential properties dropped 2% in 1982, the Commerce Dept. reported an uptick in spending in 1982's fourth quarter.

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DIY retailers targeted in I.T.C. probe

WASHINGTON—Two home center chains are among 22 foreign and domestic companies that have become the target of a U.S. International Trade Commission probe into alleged patent violations.

The investigation began Feb. 17, after the I.T.C. received a complaint from Newborn Bros. & Co. Inc., makers of the "Smoothrod Caulking Gun." The Columbia, Md., manufacturer claims that a gun identical to Smoothrod is being produced in Taiwan and Korea, and marketed among American retailers at prices 20% to 30% below normal rates.

Handy Dan, the W. R. Grace home center chain based is San Antonio, Tex., and Lowe's of North Wilkesboro, N.C., are among the retail companies who have been notified by the I.T.C. of its investigation.

Newborn Bros. has asked the Federal agency to issue both a temporary exclusion order prohibiting unbonded imports and a temporary cease and desist order. Newborn president Peter Chang said such action will help stop some importers from passing the Asian-made caulk guns off as Smoothrod products.

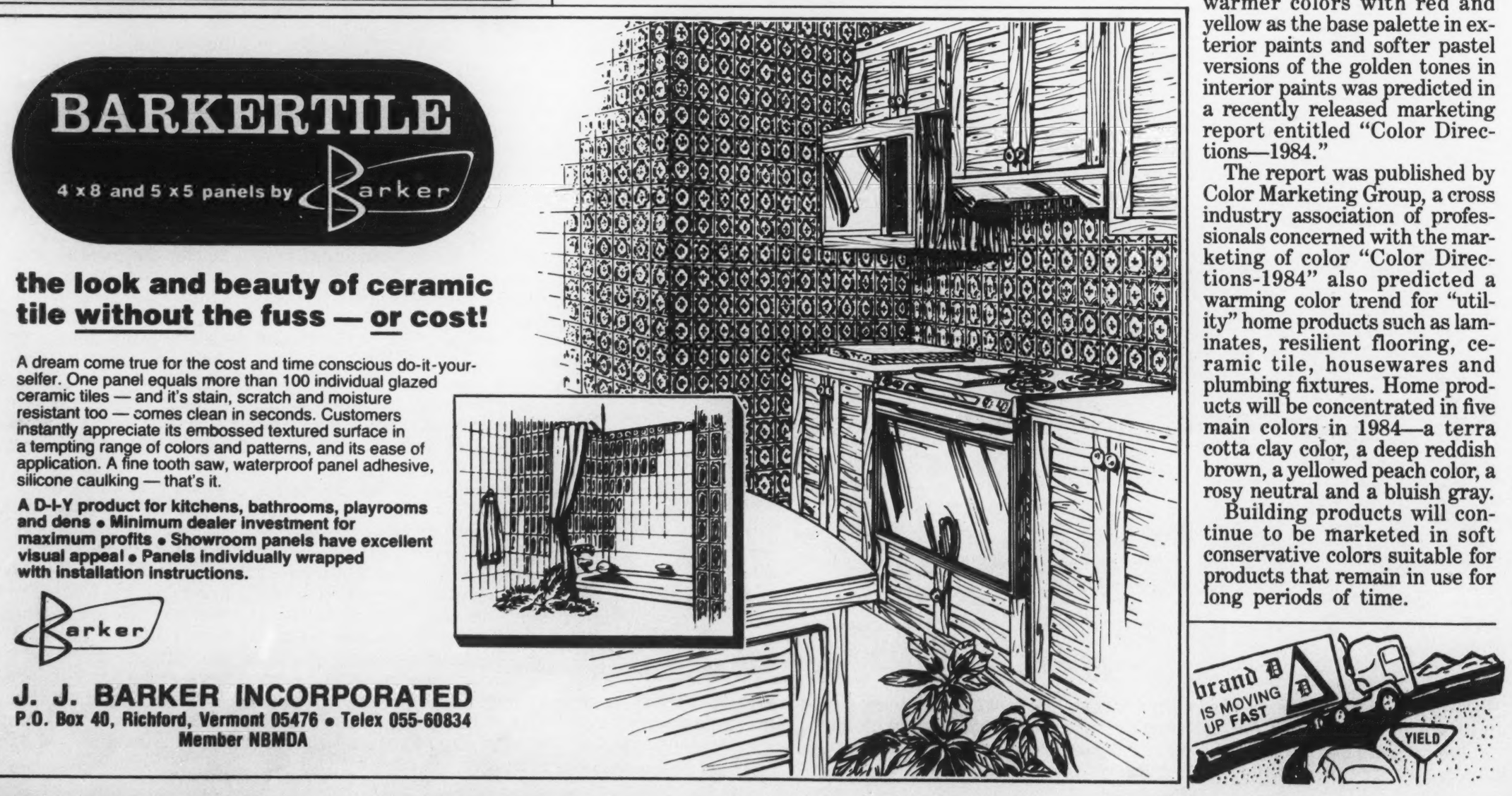
David Rabin, Lowe's trademark and patent attorney, meanwhile said the North Carolina chain's distributor has "taken over" the case on its behalf.

Color trends toward warmer, softer hues

WASHINGTON—A trend to warmer colors with red and yellow as the base palette in exterior paints and softer pastel versions of the golden tones in interior paints was predicted in a recently released marketing report entitled "Color Directions—1984."

The report was published by Color Marketing Group, a cross industry association of professionals concerned with the marketing of color "Color Directions-1984" also predicted a warming color trend for "utility" home products such as laminates, resilient flooring, ceramic tile, housewares and plumbing fixtures. Home products will be concentrated in five main colors in 1984—a terra cotta clay color, a deep reddish brown, a yellowed peach color, a rosy neutral and a bluish gray.

Building products will continue to be marketed in soft conservative colors suitable for products that remain in use for long periods of time.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HAND & POWER TOOLS

Power Tool Product Purchases

Number Purchasing—in millions (Per cent of U.S. Adults)*	1982	1981
Electric drill	6.1 (3.8%)	10.8 (6.8%)
Portable circular saw	3.1 (1.9%)	5.6 (3.5%)
Electric sander	2.9 (1.8%)	5.7 (3.6%)
Portable jig/sabre saw	2.4 (1.5%)	5.4 (3.4%)
Electric router	1.7 (1.10%)	NA (NA)
Stationary circular saw	0.9 (0.6%)	1.6 (1.0%)
Stationary radial arm saw	0.6 (0.4%)	1.3 (0.8%)
Stationary jig-sabre saw	0.5 (0.3%)	1.0 (0.6%)

*Total U.S. Adult Population: 159,453,000
Sources: Simmons Market Research Bureau; Frost & Sullivan
NHCN chart

Portable electric power tools continue to be purchased more frequently than stationary equipment, although it appears the consumer market for these products has dwindled—in some instances by more than 50%—according to market research involving over 15,000 adults conducted by Simmons Market Research Bureau and analyzed in a study released by Frost and Sullivan, the New York marketing firm.

Research classifies tool buyers: skilled workers, sometime DIYers

NEW YORK—The consumer market for power tools can be broken down into two major buying groups: the skilled blue-collar worker and the high-income professional who is an occasional DIYer.

A recently released study arriving at this conclusion also found that the customer base for this product grouping remains highly male-dominated, although more women than men appear to be purchasing radial arm saws. Other highlights in the study included findings that portrayed the South, judged against three other geographic markets, as the weakest for power tool sales.

The study was written for the market research firm Frost & Sullivan from data culled out of 15,029 interviews with adults in the Simmons Market Research Bureau's annual survey. This is the first time Simmons, an advertising and publishing market research concern, has allowed its information to be analyzed in this manner.

At a two-day meeting here last month, Frost & Sullivan summarized this data which are part of its 800-page consumer market study.

I. Michael Kadish, one of the study's authors, painted a picture of a power tool market that has, for the last two years, seen unit sales drop off close to 50%, and one that lagged behind the sales of most other hard lines.

Kadish noted that cost still remained one of the primary factors for most power tool consumers.

He went on to present detailed demographic information on six different power tool groups:

- The study showed that more than one-third of all electric drill sales came from the Midwest, and that close to 40% of all drill purchasers had household incomes of more than $30,000. It also appeared that buyers of this product group tended to conform with national averages in terms of how many children they had and length of stay in their current residences.
- About 55% of portable circular saw buyers were male, and 4 out of every 10 had household incomes of $30,000 or more. The product seemed to be more popular on the West Coast, and one-quarter of all buyers held jobs as professionals or managers. The average age group for circular saws fell in the 25 to 54 year range.
- The number of males and females owning an electric sander split right down the middle, with 40% of the total consumer universe for this product having attended college and one-fourth having a job as a professional or manager. Kadish indicated there was "definite movement toward the high-income bracket" in this product category, with 56% of all purchasers having household incomes of more than $25,000. He also noted that electric sanders were "very popular" in all geographic regions but the South.
- The portable jig-sabre saw market conforms most closely with the "typical" power tool buyer: close to 60% of all buyers are male, and skilled blue-collar workers make up 12% of total purchasers.
- Stationary equipment, in general, attracted a more upscale consumer, and this was true with stationary circular saws, 54% of which were purchased by men in the study. This product appeared to be very hobby-oriented: a good portion of the 41% of all purchasers who weren't working were thought to be retired, two-thirds of all buyers have lived in their homes for at least five years, and the biggest age group among all consumers questioned was 35 to 64. Most of the purchases were made in the Northeast and Midwest, and a full 70% of those having bought this product had incomes of at least $20,000.
- Radial arm saws were referred to by Kadish as "the ultimate upper income play toy." While they may not be comparable to a home computer, the radial arm saws did appear to attract a younger, more "upscale" consumer group: 51% of all buyers were women, he said; almost two-fifths were under 39 years old; 28% held professional or managerial positions, and close to 30% resided on the West Coast. Nearly 1 out of every 5 buyers of this product had a household income of $40,000 or more, and nearly two-thirds have lived in their homes for five years. However, Kadish said that radial arm saws appeared to be a "small town, suburban tool," with only 19% of all purchases made by city dwellers.
- Stationary jig saws attracted a strong male audience, with close to 50% of all buyers living in the suburbs. The group purchasing this product category was most predominant in the 35- to 54-year-old bracket, and 26% had a college degree, the highest percentage among all the power tool buyers surveyed.

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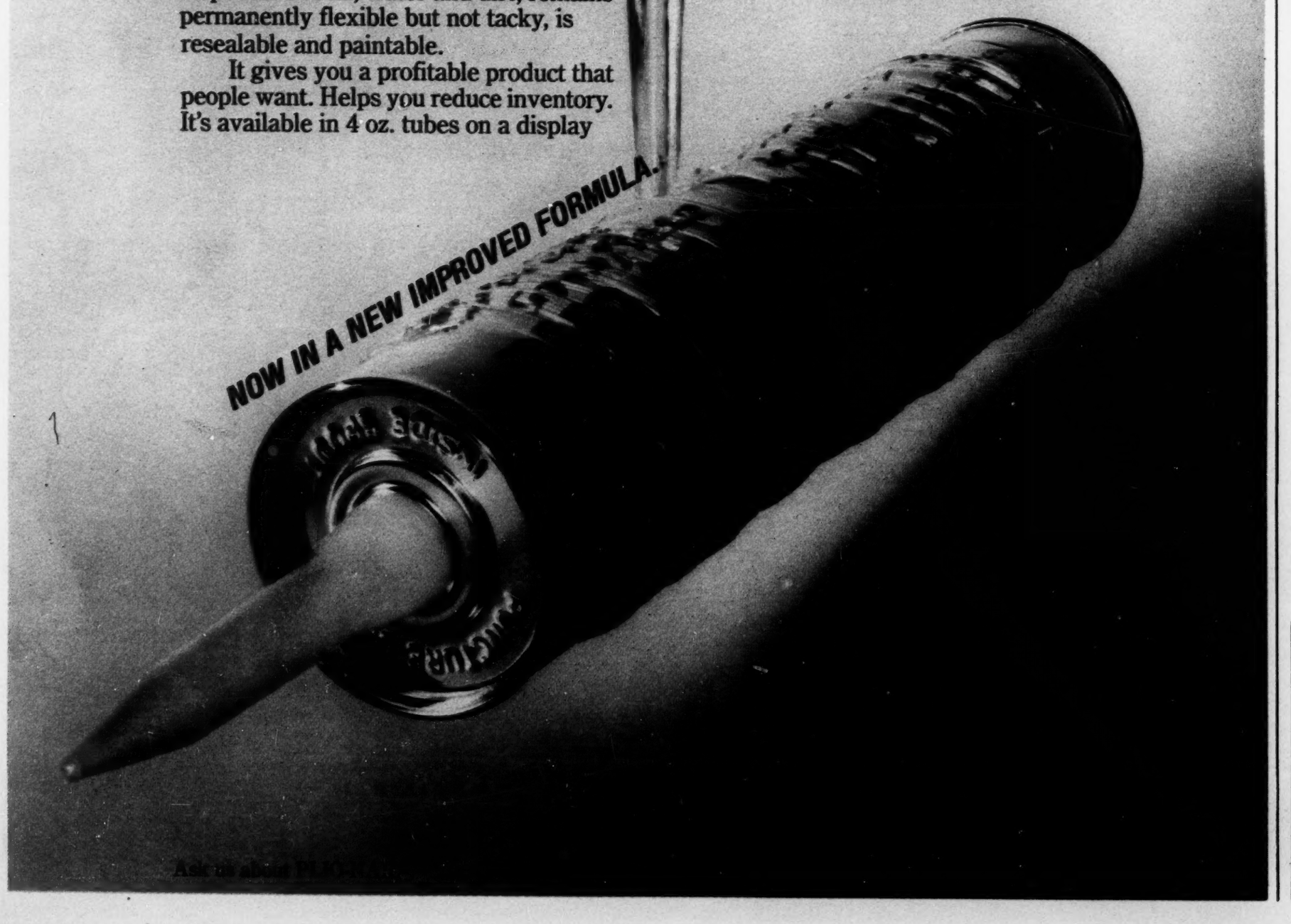

PEOPLE

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National Home Center News

FUTURES

Two weeks ended April 1, 1983

	High	Low	Close	Previous Week	Open* Interest	Contract High	Contract Low
LUMBER (CME)—130,000 bd. ft. spruce-pine-fir 2x4s; $ per 1,000 bd. ft.							
May	190.40	183.30	184.60	184.80	5,157	209.50	151.50
July	205.50	196.60	197.70	198.00	2,767	217.60	158.00
Sept.	210.80	204.60	206.00	206.00	1,068	221.00	163.80
Nov.	213.60	208.60	208.90	209.30	1,185	221.70	168.00
Jan. '84	221.20	215.90	216.30	217.20	422	232.00	179.00
March	228.20	222.70	223.00	224.00	169	234.00	206.50
May	234.90	229.40	231.80	231.40	25	234.90	229.40

Total Contract Vol. (Through 4/1): 15,167 — **Previous Two Weeks: 25,499**
Total Open Interest (As of 3/31): 10,793 — **Previous Week: 10,234**
Cash Price: $175.42 — **Previous Week: $180.32** — **Year Ago: $133.28**

PLYWOOD (CBT)—76,032 sq. ft. ½-in. ext. 4/5-ply; $ per 1,000 sq. ft.							
May	197.90	192.40	193.50	197.00	730	212.00	162.50
July	202.00	195.60	197.30	196.50	769	216.20	167.00
Sept.	206.00	200.50	201.20	200.60	537	221.00	170.00
Nov.	209.40	203.50	204.40	204.10	167	223.90	185.00
Jan. '84	212.80	206.30	207.70	206.70	41	226.60	206.30
March	214.50	210.50	210.80	211.00	10	221.00	209.00

Total Contract Vol. (Through 4/1: 1,927 — **Previous Two Weeks: 1,844**
Total Open Interest (As of 3/31): 2,254 — **Previous Week: 2,083**
Cash Price: $181.30 — **Previous Week: $186.20** — **Year Ago: $167.58**

CME—Chicago Mercantile Exchange — CBT—Chicago Board of Trade
*Figures for Thursday, March 31.
Open Interest is the number of outstanding contracts for each delivery month not liquidated by an offsetting transaction or fulfilled by delivery.

LUMBER REPORT

Softwood production is expected to increase 13% over last year

By Ken Schept
NHCN senior editor

NEW YORK—Total United States softwood production is expected to run 13.7% ahead of last year during 1983, according to the Western Wood Products Assn.

Schept

The figures are based on 1.4 million annual housing starts with the first part of the year averaging 1.3 million starts and the final quarters in the 1.5 million range.

The numbers were put together during February before the Commerce Department announced two consecutive months of annual rates of 1.7 million seasonally adjusted total starts. So it may be that production numbers could be even higher.

The WWPA's next outlook on United States softwood lumber supply and demand is not due until September, by which time we should all know whether January and February's numbers really signaled the end of the winter of our discontent.

At this point it can be said that the 24.9 billion bd. ft. of 1983 lumber production projected by the WWPA is good, but only in relative terms.

The WWPA uses 1979 as a base year for the purposes of establishing a normal production level. In each week during that year Western mills produced an average of 340,000,000 bd. ft. of lumber.

A total of 30.2 billion bd. ft. of softwood lumber was produced during 1979. Seen in this light, 1983 promises to be only 81% of normal. Still, that is up from last year which was 70% of normal with 21.9 billion bd. ft. of softwood lumber produced.

As Paul Smith, WWPA manager of economic services, put it, "When you look at the industry we've been sick. Now we're just ill."

Retailers have, of course, been concerned about the health of the forest products industry.

To a large extent, DIY sales have proven a superb palliative. It should be of interest then that the WWPA expects consumption of softwood lumber for repair and remodeling to increase in 1983 to 7.7 billion bd. ft. from 7.2 billion bd. ft. last year.

As a percentage of total softwood lumber consumption, however, repair and remodeling will be down to 31% in 1983 compared to 33% in 1982. This decline basically reflects the expected housing upturn. The portion of softwood lumber aimed at residential construction is expected to rise from an estimated 9.4 billion bd. ft. last year to 12.4 billion bd. ft. in 1983.

Lumber consumption for repair and remodeling as a percentage of total production is still up from 1979, however, when 27% or 8.1 billion bd. ft. of that year's 30.2 billion bd. ft. produced went into the R&R market.

Overall United States consumption of softwood lumber is expected to improve by about 12.5% to 33.1 billion bd. ft. this year from 29.4 billion bd. ft. in 1982, which was the worst year since World War II, according to the WWPA.

Actually the trough for consumption fell in the final half of 1981 and first half of 1982. Over a total calendar year, however, 1982's consumption was 2.3% below 1981's.

Along with the low level of home building during those years, softwood consumption was also hurt by the shift away from single-family home construction, which requires much more lumber than multifamily unit construction.

In terms of geographic regions and related species, the WWPA divides its figures for the Northwest into a coastal and inland region. Both areas are expected to show significant improvement this year.

Production of coastal softwood, which is about half Douglas fir, is projected to increase by about 18% to 6.7 billion bd. ft. in 1983. The next most-consumed coastal softwood is hem fir.

Consumption of inland wood is expected to rise by 15% to 7.8 billion bd. ft. About half of that should be ponderosa pine. Douglas fir and hem fir are also basic in that area.

The production of Southern pine is expected to rise by about 10% to 6.7 billion bd. ft. in 1983. Because of the strength of housing in the South last year, production in that region was up slightly from 1981, while overall production in the West was off 5.2% from 1981.

The WWPA arrives at its figures from a sample of 30 to 35 mills that represent about 60% to 75% of Western lumber volume, according to Smith. The sample mills send the WWPA copies of actual invoices recording lumber orders.

Figures for total Western supply and demand are extrapolated from the sample group. For Southern pine and other species, figures are obtained from relevant trade organizations.

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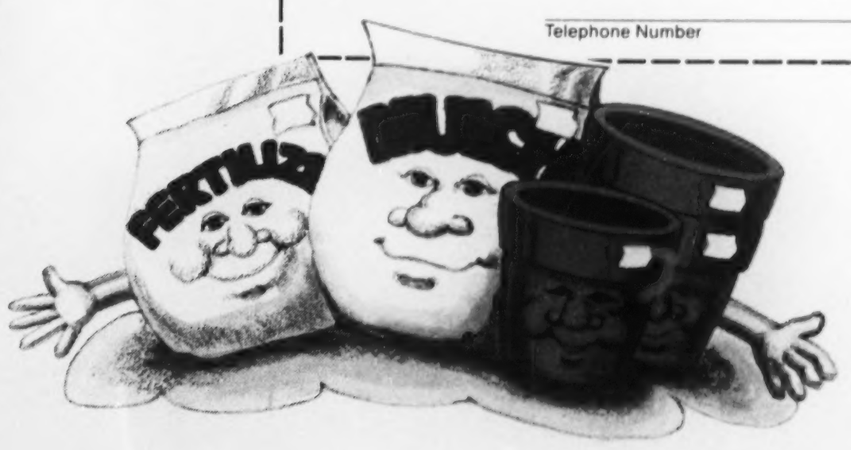

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FINANCIAL NEWS

Retail sales brighten a lackluster year for Hines Lumber

CHICAGO—Retail business, particularly do-it-yourself volume, was a bright spot in an otherwise lackluster year for Edward Hines Lumber during 1982.

While retail sales rose slightly above their comparable results in 1981 to $59,539,000 last year, consumer business, which accounted for about half of the retail sales, increased 14% from 1981 figures, according to Edward Hines, president and chief executive officer.

Continuing operations in retailing and wholesaling suffered a $3.9 million loss compared to a $1.2 million loss in 1981 as sales fell 8% to $180.5 million during the year, he noted.

The yearly results were brightened somewhat by modest improvements in the fourth quarter for continuing operations which showed a $1.3 million loss, slightly better than the year-ago period, on an 11% sales gain to $48.4 million.

Hines attributed the 1982 results, in part, to unusual costs associated with special severance payments in connection with a companywide cost reduction program, intensified planning efforts involving outside consultants, and special charges for increased bad debt and unrecoverable freight allowances. The total for these costs was about $1.4 million, much of which was charged off in the fourth quarter.

Continuing operations sales were down because of poor weather during parts of the year and depressed housing activity until late in the year, Hines said.

The company incurred a $31.6 million net loss for 1982 including a $19.9 million special charge covering estimated future charges in connection with its withdrawal from manufacturing and the sale of its sawmill operations.

Hines Lumber has recently completed the sale of mills in St. Anthony, Idaho, and Hill City, S.D., to bring the total sold to seven and total proceeds from all sales to almost $25 million, Hines said.

The company still owns four mills and some timber property which it hopes to sell.

SALES & EARNINGS

Company	Period Ended	Current Sales*	Year-Ago Sales*	% Change	Current Earnings*	Year-Ago Earnings*	% Change
Erb Lumber	12/31-4th qtr.	$ 24,784	$ 25,189	– 2	$ 595	$ 542	10
	12/31-Year	97,182	118,142	– 18	807	2,055	– 61
The Home Depot	1/30-4th qtr.	30,245	19,209	57	1,293	638	103
	1/30-Year	117,646	51,542	128	5,315	1,445	268
Wickes	1/29-4th qtr.	673,314	814,219	– 17	– 15,926	– 256,335	—
	1/29-Year	2,638,215	3,517,208	– 25	– 248,682	– 258,253	—

*$ in thousands

STOCK PRICES

	As of 3/30	52-week High	52-week Low	P/E Ratio
Boise Cascade (NYSE)	43	43½	19¾	165
Evans Products (NYSE) [Alamo Ent., Grossman's, Moore's, Hubbard & Johnson, Lindsley]	14¼	15⅞	4⅞	—
Forest City (AMEX)	21	21⅛	11½	—
W. R. Grace (NYSE) [Angels, Cashway, Channel, Handy City, Handy Dan, Orchard]	40⅝	43¾	28½	6
The Home Depot (NASDAQ)	31⅝	34½	6¼	—
Lowe's (NYSE)	38⅞	39⅜	13⅞	31
Pay 'n Save (NASDAQ)	46⅛	48¾	16⅝	—
Payless Cashways (NYSE) [Furrow]	51¼	55¾	16⅞	25
Scotty's (NYSE)	16⅜	21⅛	9	15
Southwest Forest Industries (NYSE) [Dunlap's, Knox Lumber]	13¼	14¾	7¼	—

*$ in millions

Over-the-counter stocks

	As of 3/30 Bid	As of 3/30 Asked	52-week High (Bid)	52-week Low (Bid)
Erb Lumber	18	19¼	18	7¾
Hechinger	27½	28	38½	13⅛
Hines Lumber	21	21½	21½	13
Pay 'N Pak	25⅞	26⅛	26¼	11⅝
Scotts Seaboard [Scott's]	1¼	2	2¼	⅝
Wolohan Lumber	8⅞	9	9⅜	3¼

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Erb shows quarterly gain but yearly profits plunge

BIRMINGHAM, Mich.—Modest profits from retail operations coupled with cost-cutting measures helped offset losses from Erb Lumber's builder business in 1982 and helped keep the company profitable during the period, chairman and president Fred A. Erb said in a letter to shareholders.

Erb Lumber's net income fell 61% to $807,000 on a sales decline of 18% to $97.2 million last year compared to 1981.

The fourth quarter indicated slightly improving economic conditions for the company as net income rose 10% to $595,000 on a sales decrease of less than 2% to $24.8 million.

Erb blamed 1982's unfavorable figures on depressed residential construction and the poor economy and noted that most building activity in Michigan came to a virtual standstill in the first three quarters of the year. Most of the company's units are in Michigan. Building activity in the area began to pick up somewhat in the final quarter.

Nonetheless, lumber and building material sales to builders in Michigan fell 34% last year and have declined 60% since 1979, Erb said.

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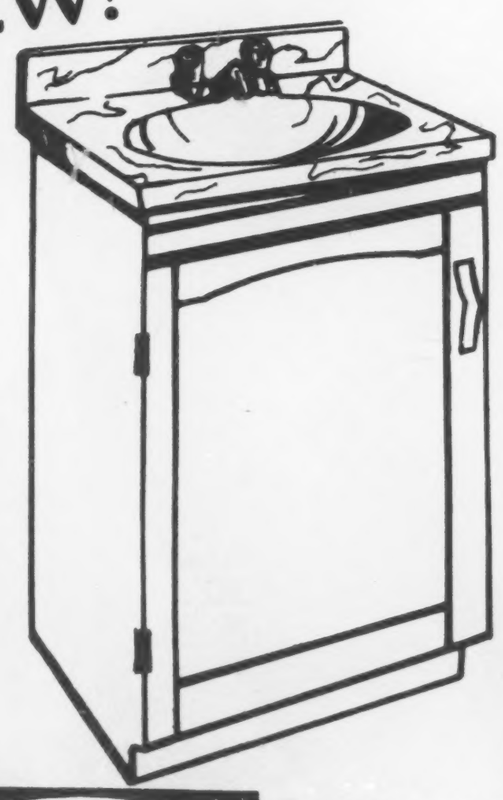

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Lowe's stock splits 5 for 3

NORTH WILKESBORO, N.C.—Lowe's issued a 5 for 3 stock split in the form of a stock dividend on its existing 21,750,000 common shares earlier this month.

The dividend brought the number of Lowe's common shares outstanding to more than 36 million.

The split was the seventh in the 235-store chain's history and officials noted that the firm has traditionally split its shares to keep their trading price within a popular range. Lowe's stock was recently selling in the $40-per-share range.

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The NHCN Annual Report on the Home Center Industry—PP. 15-67

National
Home Center News ®

Vol. 7, No. 10 — The newspaper for retailers serving homeowners and contractors. Published by Lebhar-Friedman Inc. — May 9, 1983

Posner replaces Orloff as chairman of Evans

PORTLAND, Ore.—Victor Posner is the new chairman of Evans Products, replacing Monford Orloff who retains the titles of president and ceo.

Posner's election culminates the Florida industrialist's effort to gain control over Evans. He now owns 43% of the company's stock.

An attempt to merge Evans with Sharon Steel, one of Posner's operations, ended April 14, when Evans' lenders rejected the final merger accord.

Instead, less than a week later, the Evans board of directors chose Posner as its leader.

In addition, the board installed Posner's son, Steven, as vice chairman and also named as directors two Posner associates, Martin Rosen, a lawyer and Donald Engel, an investment banker.

EVANS PRODUCTS COMPANY

These developments give Posner four representatives on a board of 16. At Evans' annual meeting next

(Continued on page 70)

Leading home center chains see heady 1st-quarter gains

NHCN staff roundup

NATIONAL REPORT—First-quarter sales rose dramatically compared to same period 1982 figures, according to an *NHCN* telephone survey of 20 leading home center companies. Ten chains, in fact, provided quarterly or monthly sales data showing average gains of 31%.

While these percentage increases resulted in part because of relatively weak first quarters last year, sales for many companies exceeded much stronger fourth-quarter results, an indication the industry is participating in the nation's economic recovery.

Contractor sales, stimulated by a reviving housing market, contributed significantly to these dramatic first-quarter sales gains.

At Lowe's, Scotty's, Evans Products, Wolohan Lumber, Star Lumber, O'Malley Lumber, Boise Cascade and Busy Beaver, a bigger chunk of their overall volume was generated by builder sales, compared with the same period a year ago.

DIY volume continued to grow for companies like Ernst, Handyman, Eclipse Industries, Payless Cashways, The Home Depot and 84 Lumber, whose first-quarter volumes leaped strongly ahead of 1982 figures.

The three-month sales performance was less spectacular for those companies—such as Weyerhaeuser, Diamond International, Hugh M. Woods and Knox Lumber—whose stores are in regions plagued by bad weather. These chains all blamed "seasonality" for the quarterly sales not being higher, but for many, sales in the first quarter exceeded same period revenues a year ago.

That the economy improved in the first three months of 1983 is, at least statistically, undeniable. Unemployment is still at a 10.1% rate, but inflation fell to an annual clip of only 3.2%; the Gross National Product—benefiting from an 84% increase in the annualized housing start

(Continued on page 70)

Home Depot to offer additional 1.5M shares of common stock

Seeks increase to 50M shares

By Kenneth Schept
NHCN senior editor

ATLANTA—The Home Depot has registered with the Security and Exchange Commission to offer an additional 1.5 million shares of common stock, which would bring the total of shares outstanding to 12,297,436.

The offering, which would increase equity capitalization from $18.3 million to over $51 million, is aimed at financing current expansion plans.

In addition, stockholders at the annual meeting, May 18, will be asked to approve an increase of authorized shares from 15 million to 50 million, apparently for possible future issue and company expansion.

Of the 1.5 million share offering, one million would be new and 500,000 would be sold from stock held by the company's top three officers.

Bernard Marcus, chairman, plans to sell 200,000 of his 1,140,674 shares. Arthur Blank, president, and executive vice president Patrick Farrah each intend to sell 150,000 of the 812,182 and 852,080 shares they hold, respectively.

This information is contained in a preliminary prospectus dated April 13, when Home Depot stock was selling for about $32 per share.

According to the prospectus, the money gained by the stock sale will be used to finance the six store openings previously announced for fiscal 1983; two stores in south Florida, two in the Tampa area and two in New Orleans.

Each unit is expected to cost $2.5 million for remodeling, fixtures, in-store computers, pre-

(Continued on page 70)

The warehouse challenge

Warehouse-type home centers have captured the attention of the industry as competitors study how to either compete against the higher volume operations or imitate them. NHCN *examines the warehouse formula, story page 15.*

INSIDE:

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The top 10: DIY sales per store

Rank	Store	No. of stores	DIY Sales per store (millions)
1	All American Home Center	1	20.00
2	The Home Depot	8*	14.70
3	Somerville Lumber	2	14.50
4	Sackett & Peters	2	10.00
5	Courtesy Home Centers	4	8.75
6	Lumberjack	7	8.43
7	National Lumber	12	8.17
8	Hubbard & Johnson	4	8.00
9	Dixieline Lumber	5	7.80
10	Menards	22	7.73

*excludes two stores opened last week of fiscal year ended Jan. 30

While stores operated by W. R. Grace, Evans Products and Payless Cashways made up a substantial portion of last year's total DIY industry volume, All American Home Center, two-unit Somerville Lumber, eight-store Home Depot and two-store Sackett & Peters led the industry in DIY sales per store last year.

NEWSBREAKS

CHANNEL MARCHES ON D.C. Channel Home Centers will open four stores in the Washington, D.C., market later this year in what is projected as a major expansion into the area.

NATIONAL TO EXPAND. National Lumber & Supply Inc., the 12-unit chain based in Santa Ana, Calif., said it plans to open six new stores in southern California within the next 14 months.

1982 Top 100 boost DIY sales by 37%

NATIONAL REPORT—All-American Home Center ranked No. 1 in sales per store; The Home Depot had the highest percentage gains in DIY and total sales; and 84 Lumber continues to be the largest chain in total units.

These and myriad other facts can be gleaned from the 1982 *NHCN* top 100 home center chart, which this year includes additional data on retail selling area, sku's and employees.

Last year, these companies had total sales of $14.7 billion, of which 76%, or $11 billion, came from consumer transactions—a 37% increase over 1981's combined DIY sales for the top 100. There were 4,178 stores operated by the top 100 companies in 1982.

However, while chains continue to dominate the industry, it was the smaller companies that appeared to generate the highest per-store volume. These stores were distinguished by having selling areas in excess of 40,000 sq. ft. and an sku count of 30,000 or more. Companies such as All-American ($20 million from one unit), Somerville Lumber ($14.5 million per store), Sackett & Peters, Lumberjack Stores, The Home Depot and Dixieline—all with 10 stores or less—were among the industry leaders in overall and DIY sales per store.

NHCN's Annual Report on the Home Center Industry begins on page 15.

It was The Home Depot's year in 1982, with its volume expanding 128% to $118 million, 100% of which coming from DIY purchases. And W. R. Grace's Angel's, the beneficiary of 13 southwest Handy Dan units that were added to Grace's newly consolidated western region, increased its volume on paper 80%.

However, the real surprises came from those companies whose past sales traditionally came from contractors. Spenard's, Alexander Lumber and Charles Meek Lumber ranked in the top 10 DIY sales gainers in 1982 (Lowe's ranked 11th), each with annual increases exceeding 30%.

Nevertheless, retail-oriented chains like Handy Andy, Goodman Lumber, Somerville, Scott's, American Maize and Williams Bros. all posted substantial percentage gains in their consumer businesses.

In terms of store count, 84 Lumber—the largest privately held company in the industry—led the way with 370. The chain also expanded the fastest, adding 20 stores last year. Evans Products, which includes the Grossman's, Lindsley, Alamo, and Hubbard & Johnson chains, followed with 341 units.

Accompanying data with the top 100 chart show that, over the past five years, combined sales among the top 100 companies have grown 75.6%, while DIY volume increased by a 120.6% clip over the same period.

NHCNews Briefs

Industry Update

Canadian tariff appeal nixed

WASHINGTON—The U.S. Coalition for Fair Canadian Lumber Imports last month lost another round in its attempt to have a tariff levied on Canadian wood.

The U.S. Court of International Trade on April 13 rejected the group's appeal of the Department of Commerce's ruling a month earlier, which turned down the request for an import duty.

The Coalition, made up of several hundred United States producers, has argued that its members have been hurt by unfair Canadian competition because, it alleges, the Canadian government subsidizes its timber industry.

A November ruling by the International Trade Commission determined that American producers suffered because of imported Canadian lumber. For a duty to be imposed, however, both injury and existence of a subsidy has to be proven. A final decision is expected in May, which the Coalition will have the right to appeal.

Payless splits stock 2-for-1

KANSAS CITY, Mo.—Payless Cashways, the 110-unit chain operating Payless Cashways, Furrow Building Materials and Lumberjack stores in 15 Midwestern Southwestern and Pacific Coast states, has announced a 2-for-1 stock split effective May 25.

The split, in the form of a 100% stock dividend to shareholders of record May 4, doubles the total Payless shares outstanding to 40 million. It was authorized by the eight directors re-elected at the annual meeting April 14.

The Board also declared a regular quarterly dividend on the new shares of 3¢ per share payable July 1, to shareholders of record June 7. In declaring the dividend Payless confirmed its previously announced policy of declaring dividends equal to 10% to 15% of prior year per-share earnings.

The company also increased the number of shares available for options under Payless' Employee Stock Option Plan from 100,000 to 300,000.

Payless Cashway stock was selling for 54¼ as this issue went to press in late April.

Hines sells Oregon holdings

CHICAGO—Edward Hines Lumber Co. has reached agreements regarding the sale of its lumber manufacturing properties in Oregon. Along with the expected sale of timber holdings in Mississippi, the Oregon agreements will substantially complete the sawmill divestiture program Hines undertook last summer.

One Oregon sawmill will be sold to Snow Mountain Pine Co., a division of Brown's Industries of Eagle, Idaho, which also owns Evan's Building Center, a home center in Eagle.

Judd DeBoer, president of Brown's Industries, said that the businesses are unrelated and that the purchase of the sawmill will in part replace a Riggins, Idaho, sawmill that burned down a year ago.

The Edward Hines company will sell three other Oregon sawmills to the John Day Lumber Co., a recently formed partnership between J. I. Morgan Inc., and J. I. Morgan Equipment Co., both of New Meadows, Idaho.

The closings of these sales are expected to take place within the next two months.

Edward Hines Lumber announced to its stockholders that proceeds from the Oregon sales, together with previously reported sales totaling about $25 million, will leave the company with about $15 million in cash reserves after payment of some related debt.

Stubbs named vp at Dixieline

SAN DIEGO—Paul Stubbs has been named merchandising vp at Dixieline Lumber, replacing Jim Inglis who left earlier this year to accept a senior merchandising position with Atlanta-based Home Depot. Stubbs formerly was an assistant vp and division merchandise manager at Handyman, the home improvement chain also based here.

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Vol. 9, No. 10 May 9, 1983

More lumber displayed indoors at remodeled O'Malleys store

By Brad Altman
NHCN West Coast editor

MESA, Ariz.—The refurbishment of a 10-year-old O'Malleys Building Materials Center here marks a change in the 15-unit chain's expansion strategy.

Rather than build new units, the company this year plans to spend an unspecified amount on remodeling existing units. The program is aimed at boosting sales, particularly by improving lumber presentation.

The Greater Phoenix area—where most O'Malleys stores are located—is overstored, according to Paul Conley, manager of O'Malleys' retail sales division which posted $65 million in sales in 1982.

The number of Phoenix-area

(Continued on page 69)

O'Malleys is bringing lumber from the outside to the inside of the store, according to Paul Conley, manager, retail sales division.
NHCN photo

Court lifts formaldehyde ban

WASHINGTON—A Consumer Products Safety Commission ban on the sale of urea formaldehyde foam insulation was lifted last month by the U.S. Fifth Circuit Court of Appeals.

The restriction had been imposed following complaints by homeowners of illness after installation of urea foam insulation.

The court concluded that the scientific evidence presented by the C.P.S.C. regarding urea foam as a source of irritation and cancer in humans was not conclusive enough to warrant a total ban.

It attributed some of the problems with urea foam to faulty installation, rather than the product itself.

The decision was welcomed by the Formaldehyde Institute, a trade group that was among the petitioners who brought the suit against the C.P.S.C. The agency is expected to ask the court to review the matter.

An attorney connected with the case suggested that, while the court found problems with the C.P.S.C.'s methodology, it "also made it clear that it did not accept industry's view that there was no problem."

The C.P.S.C. may now ask the court what standard it would accept as a measure of urea foam's safety or danger, since it rejected the agency's approach.

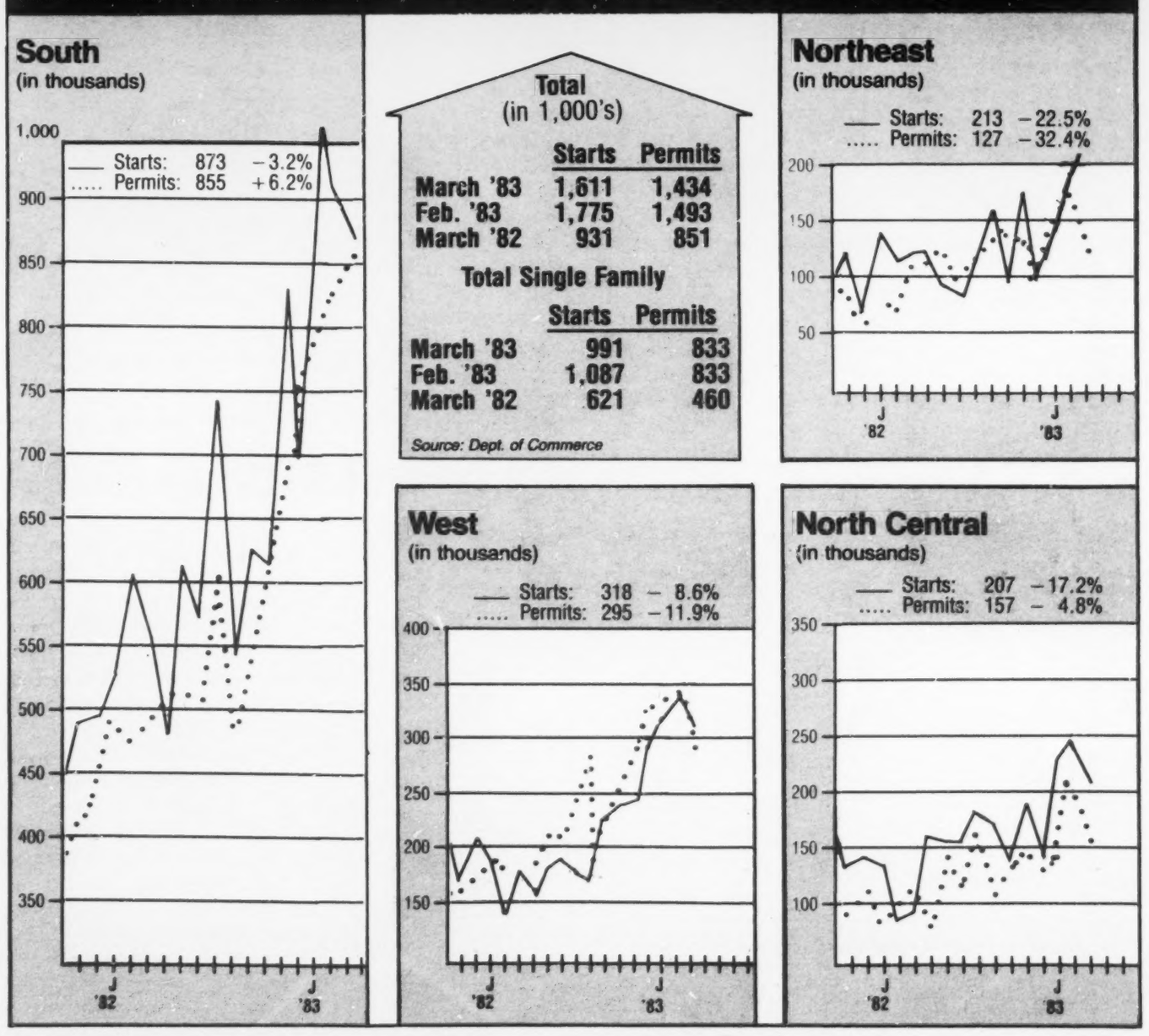
According to Allen Greenberg, staff attorney for Public Citizens Health Research Group, a nonprofit consumer organization that petitioned the C.P.S.C. to extend its ban to cover commercial buildings, the court was "looking unreasonably for precision that's not possible. The court was saying tell us exactly how many people are going to die. You can't do that."

In certain laboratory studies rats exposed to high levels of formaldehyde developed nasal cancer. What happens with low-level human exposure over time is apparently not as clear.

The Formaldehyde Institute, in a prepared release, said it would cooperate with the C.P.S.C. in developing a voluntary standard for installation.

According to Greenberg, such a standard is difficult to establish "because the problems of off-gassing can vary dramatically from installer to installer and house to house."

March home-building activity



March's seasonally adjusted housing starts, both total and single-family, were down from February. Total starts of 1.6 million were down 9.2% from the month before, while single-family starts were off 8.8% with 991,000 units built, on a seasonally adjusted basis. The drop was not completely unexpected, because of the change in factors used to calculate the seasonal adjustment. Actually 40% more units were built in March compared with February and 42.2% more single-family homes. A spokesman for the Commerce Department noted that a 50% increase in actual starts is common in a normal housing year.

Last year was far from normal for the housing industry and March's level of starts, while somewhat off from earlier in 1983, was 68.5% ahead of March 1982 for seasonally adjusted total starts and 81.1% ahead for single family.

THE NHCN ANNUAL REPORT ON THE HOME CENTER INDUSTRY

Warehouse formula challenging competitors

Execs weigh options: Beat 'em or join 'em

By Kenneth Schept
NHCN senior editor

NATIONAL REPORT—When John Hechinger addressed a group of security analysts in New York a few weeks ago, he was asked what his company would do if it were to meet The Home Depot head-to-head in the same market.

Hechinger admitted that the possibility had been considered and suggested that his mid-Atlantic chain, with stores of 60,000 sq. ft. carrying 40,000 sku's, could fairly easily adapt to a more warehouse-type approach.

O'Malley's executives, with stores of only 7,000-20,000 sq. ft., mostly in Arizona, are now remodeling all the units with one special consideration in the back of their minds. If a warehouse-type home center opens in one of their markets, general merchandise manager Steve Elliott said the refurbished stores were designed to be easily converted into wide-selection, low-price outlets, albeit in limited space.

At Payless Cashways too, the possibility of being up against The Home Depot has been debated many times.

Officials there see problems for Payless in such a confrontation. More significantly, they feel it is not just the Home Depot they have to consider. In the next five years they expect every big metropolitan market to have a warehouse-type operation.

Intrigued by the spectacle of Home Depot, which last year increased earnings 339% to $5.3 million on $117.6 million in sales, home center operators across the country are closely observing warehouse-type retailing in order to better run their own companies and defend against incursions by Home Depot and other warehouse firms now evolving from its example.

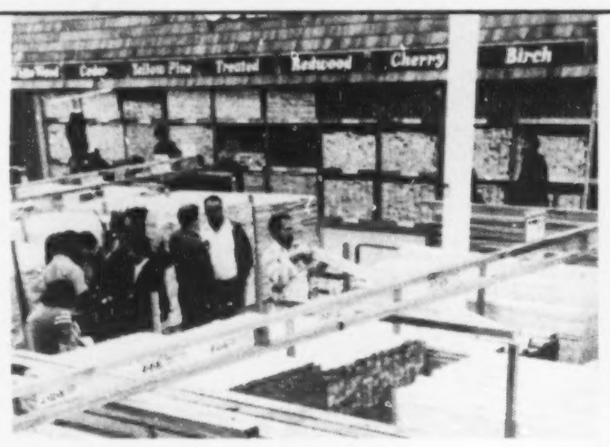
At the same time, manufacturers, who see mostly benefits from moving so much product in individual outlets, are examining ways to take better advantage of the increased cubic retail space available with the warehouse approach.

And entrepreneurs are being lured by the chance to reach, with only a few stores, the volume and therefore the buying power, of much larger chains. Home Depot outlets now average more than $14 million in annual sales, about four times the output of a typical home center unit.

So far, Pat Sher, former Linsley president, has opened HomeOwners Warehouse in south Florida, W. R. Grace introduced House Works in New Orleans and a group headed by Frank Denny, who recently resigned as head of Grace's home center division, is about to launch a new chain of warehouse-size and breadth in San Antonio.

Denny feels that the power of warehouse operations has yet to be proven in a market with really tough competition. Were a warehouse successfully challenged the results could be disasterous he said, because its low-margin formula requires high volume.

Despite the risk, discount operations have long been a successful retailing phenomenon, as has the warehouse approach. Recently, innovations like the Price Club and supermarket warehouses have caught the public's imagination. And high volume companies have long been a part of the home center industry. Sher mentioned National Lumber, Santa Ana, Calif., with stores averaging $10 million annually, as one of the retailers he observed before opening HomeOwners.



Warehouse-type retailing has captured the imagination of American DIYers in all cities where the outlets have so far appeared. Their sharp pricing and high volumes have home center executives thinking about how warehouse tactics can best be adapted or parried. Clockwise, from top, are examples of The Home Depot, HomeOwners Warehouse and House Works. NHCN photos

The difference today is that the off-price, warehouse concept never before stirred this kind of industrywide excitement, curiosity and apprehension.

Analyst Walter Loeb of Morgan Stanley called Hechinger's comments at the Wall Street meeting "a very revealing clue" that every company in the industry is at least looking at the warehouse approach.

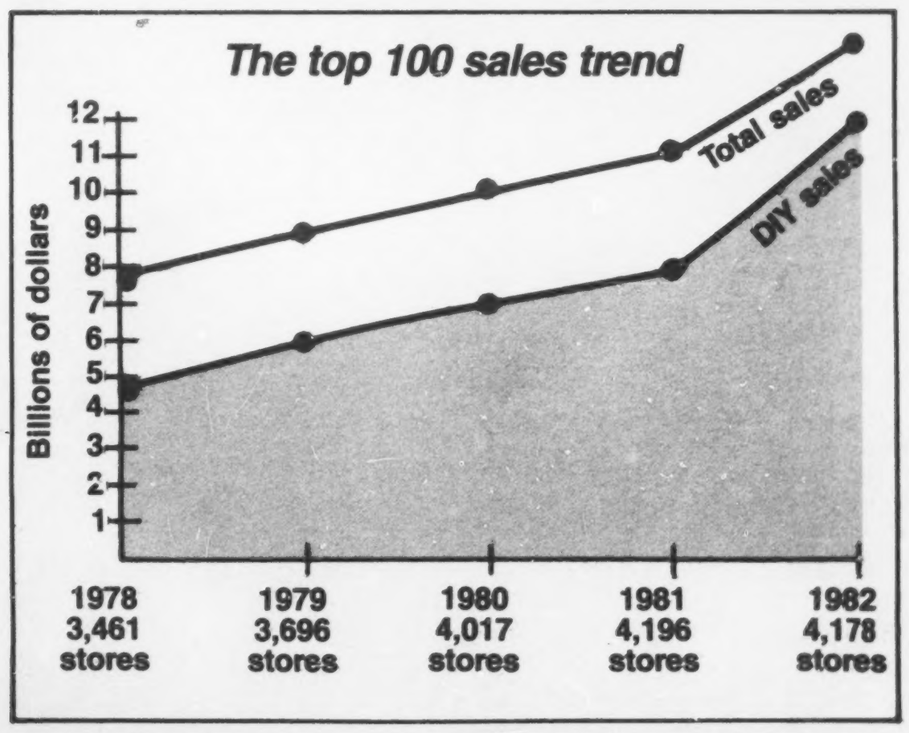
"Companies like Hechinger and Payless Cashways will be aware of the fact that they will have to be price competitive," said Loeb. "A company like Scotty's will have to rethink its entire operation. They were largely convenience stores.

"Most companies will look different in the next five years because of The Home Depot and what others are replicating."

Then just what is this new animal into which a segment of the home center industry has

(Continued on page 22)

NHCN's Top 100 post 120% DIY sales gain since 1978



In the five years between 1978 and 1982 the percentage of DIY sales to total sales in home centers increased from 61% to 76%. In fact, last year DIY sales alone, $11 billion, were greater than total sales five years ago, which amounted to $8.2 billion in 1978. Interestingly the total and DIY volume increases for 1982 essentially reflect same-store sales growth, since the industry store count dipped by 18 units to 4,178.

NATIONAL REPORT—In the last five years *NHCN*'s Top 100 home centers have increased sales by 76%.

Even more dramatic, the DIY volume grew by 120% between 1978 and 1982.

Combined with a 20% increase in stores from 3,461 to 4,178 during the same period, the Top 100 have also shown a rising sales per store average. In 1978 average sales per store were $1.4 million; in 1982 the figure was $3.4 million.

Last year was also the first time the Top 100 declined in number of stores. There were 18 fewer than in 1981, a contraction resulting from pressures of the recession. Total sales grew 3 2% to $14.50 billion, while DIY volume rose almost 37% to $11 billion.

These findings are part of *National Home Center News'* ninth annual report of the home center industry.

The report also evaluates the hottest trend of 1982: warehouse-type retailing, and considers the advantages and risks of that business and the influence high volume operators are having on the industry.

In addition, the issue measures the performance of last year's top 10 chains in several ways, including total and DIY sales, store count and sales per store.

The public companies are evaluated over five years and compared in net margin, sales per square foot, earnings per square foot, payroll costs to sales and inventory turns.

A view of wholesaling in 1982 is also provided, as well as a review of nine major merchandising categories and strategies chains used to increase turns.

The home center industry has changed substantially since the first *NHCN* Top 100 report in 1978. At that time the popular view was, "When times are good, business is good. When times are bad, business is better."

At that time Wickes ranked No. 1 in both total and DIY sales and also listed 330 stores, which was the greatest of any company. That year it was also the first to crack the $1 billion mark in sales.

When times became bad, however, Wickes' business did not get better. As it filed for Chapter XI last April, other chains were also retrenching. Evans Products, which ranked second in DIY volume, even had its retail division on the block in an effort to raise cash against its highly leveraged debt.

W.R. Grace, No. 1 in DIY volume, again tried to reorganize its home center chains into manageable regions. It also prepared to launch a new chain, House Works, in an effort to be on the cutting edge of the trend toward warehouse-type outlets.

W.R. Grace had already made its mark on home centers by 1978 after only two short years in the retail sector. The conglomerate ranked No. 2 in

(Continued on page 41)